

Message Text

SECRET

PAGE 01 BELGRA 02293 01 OF 02 141006Z
ACTION SS-25

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FM AMEMBASSY BELGRADE
TO SECSTATE WASHDC PRIORITY 256

S E C R E T SECTION 1 OF 2 BELGRADE 2293

EXDIS

C O R R E C T E D C O P Y (TEXT)

FROM CHARGE

EO 11652: GDS
TAGS: ENRG, TECH, YO, US
SUBJECT: NON-PROLIFERATION ND NUCLEAR EXPORTS: KRSKO

REFS: (A) BELGRADE 2183 (B) STATE 70150 (C) BELGRADE 2092
(D) BELGRADE 2258

1. SUMMARY. CONTINUATION OF THE STATUS QUO ON KRSKO
LICENSE FOR VERY MUCH LONGER THREATENS TO LEAD TO LONG
DELAYS OR PROJECT COLLAPSE. THE BARGAINING POWER OF GOY
NEGOTIATOR, BERNARDIC, APPEARS TO HAVE NARROWED WITH
DECISIONS NOW BEING MADE AT HIGHEST LEVEL IN GOY.
OF THE OPTIONS AVAILABLE TO THE USG, I WOULD RECOMMEND
ISSUANCE OF THE EQUIPMENT LICENSE IN EXCHANGE FOR GOY
STATEMENT ALONG LINES THEY NOW PREPARED TO GIVE WITH
CLEAR INDICATION TO GOY THAT ISSUANCE OF FUEL LICENSE
IS CONTINGENT UPON GOY AGREEMENT TO CONSULTATION WITH
US (OR EQUIVALENT) ON RETRANSFER AND REPROCESSING.
THIS KIND OF FLEXIBILITY WHILE INCURRING RISKS MAY BE
NECESSARY IN THE OVERALL EFFORTS OF THE USG TO SEEK
STRONGER COMMITMENTS FROM OTHER NATIONS ON NON-PROLIFERATION.

SECRET

SECRET

PAGE 02 BELGRA 02293 01 OF 02 141006Z

END SUMMARY.

2. THE KRSKO SITUATION HAS REACHED A LEVEL OF URGENCY
THAT SUGGESTS A RE-EXAMINATION OF THE CURRENT
USG BARGAINING POSITION. IT IS A QUESTION NOT JUST OF
MONTHLY MULTIMILLION-DOLLAR LOSSES BUT OF A YEAR'S
DELAY OR EVEN A PROJECT COLLAPSE. BOTH WESTINGHOUSE

AND THE YUGOSLAV INVESTORS MAINTAIN THAT UNLESS THE HEAVY EQUIPMENT BEGINS ARRIVING BY JUNE 1, DELIVERIES OF THE EQUIPMENT FROM PORT TO SIT RISK BEING DELAYED ANOTHER YEAR. WE HEAR REPORTS THAT THE PRIVATE BANK CONSORTIUM MAY NOT AUTHORIZE THE NEXT LOAN DISBURSEMENT IN LAST MAY IF THE LICENSE IS NOT ISSUED BY THEN. WESTINGHOUSE WILL PROBABLY SEEK TO PROTECT ITSELF BY INVOKING FORCE MAJEURE. I AM CONVINCED THAT PROJECT COLLAPSE WOULD BE A DISASTER FOR US INTERESTS NOT ONLY IN YUGOSLAVIA BUT ALSO IN THE GLOBAL CONTEXT OF OUR NEW NON-PROLIFERATION POLICIES.

3. APPRAISAL. THE PRESENT STATE OF NEGOTIATIONS SHOWS LITTLE PROSPECT OF BREAKING THE CURRENT IMPASSE. BASED ON PATTERN OF NEGOTIATIONS, SFR REPORTING AND MY OWN ANALYSIS OF SITUATION, I AM PERSUADED THAT DECISIONS ON KRSKO ARE NOW BEING MADE AT EXTREMELY HIGH POLITICAL LEVEL, CERTAINLY KARDELJ AND POSSIBLY TITO AS WELL. WHATEVER FLEXIBILITY THE CHIEF GOY NEGOTIATOR, BERNARDIC, MAY HAVE HAD DURING VEST-ARMITAGE-HOYLE VISIT HAS DISAPPEARED AND THE SHOTS ARE BEING CALLED BY THOSE IN UPPER LEVELS OF HIERARCHY. THEY LOOK ON KRSKO AS POLITICAL PROBLEM, SEE THEMSELVES AS SUBJECT TO AND VALIANTLY RESISTING US PRESSURE AND PLAN TO COUNTER THAT PRESSURE BY INTERNATIONALIZING DISPUTE AND TAKING THEIR CASE TO THEIR THIRD WORLD ALLIES. THEIR NEW DELHI GAMBIT (NEW DELHI 4936 AND 5203) IS FIRST STEP IN THIS CAMPAIGN. IF NECESSARY, THEY MAY BE PREPARED TO ACCEPT HIGH ECONOMIC COSTS INVOLVED IN
SECRET

SECRET

PAGE 03 BELGRA 02293 01 OF 02 141006Z

WITHDRAWAL OF US SUPPORT FOR KRSKO. BERNARDIC IS UNDER STRICT INSTRUCTIONS TO MAKE NO SUBSTANTIVE CONCESSIONS, AND WHILE HE IS FREE TO EMBELLISH ON EXISTING YUGOSLAV COMMITMENTS, HE MAY NOT RPT NOT GO BEYOND THEM.

4. THERE IS STILL THE POSSIBILITY THAT BERNARDIC, AN EXCELLENT NEGOTIATOR, MAY HAVE ADOPTED HARD LINE IN ORDER TEST PARAMETERS OF US POSITION. IN LAST MEETING I MADE EXTREMELY STRONG STATEMENT OF US CASE, EMPHASIZING FACT THAT ADDITIONAL CONTROLS OVER DISPOSITION AND TRANSFER WERE NECESSARY FOR THE USG. IN REPLY BERNARDIC CONTINUED TO SUGGEST FURTHER DISCUSSIONS. SINCE YUGOSLAVS HAVE NO RPT NO REASON TO SUPPOSE FROM ANYTHING I HAVE SAID SINCE THEAM LEFT THAT US PREPARED TO CONCEDE AND SINCE THIS MESSAGE REINFORCED BY ARMITAGE-PETKOVIC CONVERSATION (STATE 070150), BERNARDIC MAY HAVE BEEN TESTING THE LIMITS OF USG FLEXIBILITY AND MAY NOW BE WILLING TO MAKE CONCESSIONS. GIVEN THE ACCUMULATING

LOSSES AND THE SUDDEN HARDENING OF THE GOY POSITION,
I DOUBT IT. IF BY NEXT WEEK BERNARDIC HAS NOT SOUGHT
TO RENEW NEGOTIATIONS, I THINK THIS THESIS CAN BE
DISCARDED AND WE CAN ASSUME BERNARDIC'S HARD LINE
IS MORE THAN TACTICAL.

5. OPTIONS. WE HAVE NO EASY RISK-FREE OPTION OPEN TO
US; ALL OF THE FOLLOWING POSE DRAWBACKS AND RISKS.
HOWEVER, I SEE THE FOLLOWING AS OUR MAJOR POSSIBILITIES:

(A) SEEK NEW NEGOTIATING GROUNDS. TWO FORMULAS
SUGGEST THEMSELVES: FIRST, THAT THE USG CONTRACTS TO
BUY BACK ALL SPENT FUEL REGARDLESS OF ORIGIN FROM KRSKO
REACTOR OR TAKE AN OPTION TO DO SO; SECOND, THE YUGOSLAV
INVESTORS AGREE TO BY US ENRICHMENT SERVICES FOR THE
LIFETIME OF THE KRSKO REACTOR (THEY ALREADY HAVE AN OPTION
TO BUY 20 YEAR SUPPLY IN ADDITION TO THE PURCHASE OF
10 YEAR SUPPLY). THE FIRST FORMULA COULD BE CONSIDERED
SECRET

SECRET

PAGE 04 BELGRA 02293 01 OF 02 141006Z

A POOR PRECEDENT. HOWEVER, IT MAY WELL REPRESENT
THE COST OF OUR NEW NON-PROLIFERATION POLICIES AND OFFERS
THE ULTIMATE GUARANTEE AGAINST DIVERSION. BOTH FORMULAS
RISK INCITING YUGOSLAV SUSPICIONS THAT WE ARE SEEKING

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PAGE 01 BELGRA 02293 02 OF 02 140744Z
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
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P 131406Z APR 77
FM AMEMBASSY BELGRADE
TO SECSTATE WASHDC PRIORITY 257

S E C R E T SECTION 2 OF 2 BELGRADE 2293

EXDIS

FROM CHARGE'

COMMERCIAL ADVANTAGE, AND BOTH MAY ULTIMATELY PROVE

UNACCEPTABLE TO GOY GIVEN STRESS PLACED
ON NEED TO AVOID ANY ADDITIONAL COMMITMENTS.

(B) STANDFAST. HERE WE WOULD SIMPLY REITERATE OUR
ARGUMENTS AND HOPE FOR YUGOSLAV CONCESSION. WE MIGHT
POSSIBLY WISH EXPLORE OTHER FORMULAS SUCH AS THAT
SUGGESTED BELGRADE 2092. PROBABLY WE WOULD WANT TO GO
PUBLIC SOON IN PRESENTING OUR CASE DOMESTICALLY AND
INTERNATIONALLY IN MOST PERSUASIVE MANNER POSSIBLE.
WE MIGHT WANT CONGEN ZAGREB TO BRIEF CROATIAN AND
SLOVENIAN LEADERS, WITH THE IMPLIED MESSAGE BEING
THAT THEIR ECONOMIC INTERESTS ARE BEING SOLD OUT IN ORDER
ACHIEVE BELGRADE'S POLITICAL GOALS. RISKS OF THIS
COURSE ARE IN POISONING OF BILATEKWL RELATIONS AS CRITICAL
POST-TITO TRANSITION APPROACHES AND UNDERCUTTING
RELATIVELY MODERATE AND PRO-US YUGOSLAV LEADERS
WHO SUPPORTED KRSKO. WE COULD ALSO COUNT ON VIGOROUS
YUGOSLAV CAMPAIGN TO UNDERMINE ADMINISTRATION'S
NON-PROLIFERATION AND DISARMAMENT OBJECTIVES WITHIN
NONALIGNED MOVEMENT, WITHIN WHICH YUGOSLAVIA HAS
CONSIDERABLE INFLUENCE.

SECRET

SECRET

PAGE 02 BELGRA 02293 02 OF 02 140744Z

(C) THROW IN THE TOWEL. TAKE WHAT YUGOSLAWS WILLING
TO GIVE US AND PROCEED TO RAPIDLY LICENSE KRSKO
CONSTRUCTION AND FUEL. WHILE YUGOSLAV STATEMENT IS
NOT BY ANY MEANS WITHOUT SOME POLITICAL BENEFIT FOR US,
RISK IN THIS COURSE IS THAT WE WOULD UNDERMINE
CREDIBILITY OF ADMINISTRATION'S NON-PROLIFERATION
POLICY WHEN IT HAD BARELY GOTTEN OFF GROUND. IF WE MADE
EXCEPTION FOR YUGOSLAVIA, WE WOULD BE HARD PRESSED TO
TAKE FIRM LINE WITH OUTHER RECIPIENTS OF US FUEL AND
TECHNOLOGY.

(D) "MEXICAN" SOLUTION. WHILE THIS NOMENCLATURE NOT
EXACT SINCE MEXICAN CONSTRUCTION LICENSE GRANTED IN
1974 BEFORE NRC CREATED AND ADMINISTRATION'S POLICY
REVIEW COMPLETED, AS WE UNDERSTAND SITUATION PRINCIPLE WOULD
BE SAME; I.E., WE WOULD GRANT CONSTRUCTION LICENSE, BUT INSIST
ON YUGOSLAV ACCEPTANCE OF OUR CONDITIONS BEFORE LICENSING FUEL.
IN ORDER PUT BEST FACE POSSIBLE ON SITUATION, WE
WOULD REQUIRE YUGOSLAV UNILATERAL STATEMENT TO IAEA

AS CONDITION FOR CONSTRUCTION LICENSE AND WOULD MAKE
CLEAR TO THEM NOW THAT SINE QUA NON FOR FUEL LICENSE
WILL BE CONSULTATION WITH US OR ITS EQUIVALENT. RISK IS
THAT YUGOSLAWS WOULD TAKE CONSTRUCTION LICENSE, SUBSEQUENTLY
REJECT OUR CONDITIONS AND OBTAIN FUEL AND ENRICHMENT
SERVICES ELSEWHERE.

6. RECOMMENDATION. I PERSONALLY FAVOR OPTION (D).
IT WOULD DEFUSE KRSKO AS A BILATERAL ISSUE, MIGHT BE
ENOUGH TO SECURE MORE POSITIVE YUGSLAV STANCE IN THE UPCOMING
UN SPECIAL SESSION ON DISARMAMENT, WOULD TEND TO
UNDERCUT CREDIBILITY OF YUGOSLAV CHARGE THAT WE
USING PRESSURE TACTICS AND BALCKMAIL TO HAVE OUR
WAY, AND COULD, BY JUUDICIOUS COMPARISON WITH
MEXICAN SITUATION, AVOID WEAKENING OUR OVERALL NON-
PROLIFERATION STRATEGY.

SECRET

SECRET

PAGE 03 BELGRA 02293 02 OF 02 140744Z

7. WHICHEVER OF THESE OPTIONS CHOSE, DEPARTMENT
MIGHT WISH TO CONSIDER RENEWING INVITATION FOR YUGOSLAV
TEAM TO VISIT WASHINGTON, OR ALTERNATIVELY DESPATCH NEW
NEGOTIATING TEAM TO BELGRADE. I PERSONALLY DO NOT
FEEL THIS BY ITSELF WOULD BREAK PRESENT IMPASSE, BUT
I WOULD SEE NO HARM TO OUR POSITION COMING FROM IT,
AND IT WOULD REINFORCE IMAGE OF US ACTIVELY SEEKING
SOLUTION TO KRSKO PROBLEM. IN ANY EVENT, WE WOULD
APPRECIATE A REPLY ASAP. YORK

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